

# **EXHIBIT C**

# Appraisal Standards Board



THE APPRAISAL FOUNDATION  
Authorized by Congress as the Source of Appraisal  
Standards and Appraiser Qualifications

# USPAP 2002

## Uniform Standards of Professional Appraisal Practice

EXHIBIT

Berkland 5  
HJM 11/8/07

Effective January 1, 2002 - December 31, 2002

2561 **STANDARD 9: BUSINESS APPRAISAL, DEVELOPMENT**

2562 In developing a business or intangible asset appraisal, an appraiser must identify the problem to be  
 2563 solved and the scope of work necessary to solve the problem and correctly complete the research and  
 2564 analysis steps necessary to produce a credible appraisal.

2565 **Comment:** STANDARD 9 is directed toward the substantive aspects of developing a  
 2566 competent business or intangible asset appraisal. The requirements of STANDARD 9  
 2567 apply when the specific purpose of an assignment is to develop an appraisal of a business  
 2568 or intangible asset.

2569 **Standards Rule 9-1** (This Standards Rule contains binding requirements from which departure is not  
 2570 permitted.)

2571 In developing a business or intangible asset appraisal, an appraiser must:

2572 (a) be aware of, understand, and correctly employ those recognized methods and procedures  
 2573 that are necessary to produce a credible appraisal;

2574 **Comment:** Changes and developments in the economy and in investment theory have a  
 2575 substantial impact on the business appraisal profession. Important changes in the  
 2576 financial arena, securities regulation, and tax law and major new court decisions may  
 2577 result in corresponding changes in business appraisal practice.

2578 (b) not commit a substantial error of omission or commission that significantly affects an  
 2579 appraisal; and

2580 **Comment:** In performing appraisal services, an appraiser must be certain that the  
 2581 gathering of factual information is conducted in a manner that is sufficiently diligent,  
 2582 given the scope of work as identified according to Standards Rule 9-2(e), to reasonably  
 2583 ensure that the data that would have a material or significant effect on the resulting  
 2584 opinions or conclusions are identified and, when necessary, analyzed. Further, an  
 2585 appraiser must use sufficient care in analyzing such data to avoid errors that would  
 2586 significantly affect his or her opinions and conclusions.

2587 (c) not render appraisal services in a careless or negligent manner, such as by making a series of  
 2588 errors that, although individually might not significantly affect the results of an appraisal, in  
 2589 the aggregate affect the credibility of those results.

2590 **Comment:** Perfection is impossible to attain and competence does not require perfection.  
 2591 However, an appraiser must not render appraisal services in a careless or negligent  
 2592 manner. This rule requires an appraiser to use diligence and care.

2593 **Standards Rule 9-2** (This Standards Rule contains binding requirements from which departure is not  
 2594 permitted.)

2595 In developing a business or intangible asset appraisal, an appraiser must identify:

2596 (a) the client and any other intended users of the appraisal and the client's intended use of the  
 2597 appraiser's opinions and conclusions;

2598 **Comment:** An appraiser must not allow a client's objectives or intended use of the  
 2599 appraisal to cause an analysis to be biased.

2599 (b) the purpose of the assignment, including the standard of value (definition) to be developed;

(c)	the effective date of the appraisal;	2601
(d)	the business enterprises, assets, or equity to be valued;	2602
(i)	identify any buy-sell agreements, investment letter stock restrictions, restrictive corporate charter or partnership agreement clauses, and any similar features or factors that may have an influence on value; and	2603 2604 2605
(ii)	ascertain the extent to which the interests contain elements of ownership control.	2606
	<u>Comment:</u> Special attention should be paid to the attributes of the interest being appraised, including the rights and benefits of ownership. The elements of control in a given situation may be affected by law, distribution of ownership interests, contractual relationships, and many other factors. As a consequence, the degree of control or lack of it depends on a broad variety of facts and circumstances that must be evaluated in the specific situation.	2607 2608 2609 2610 2611 2612
	Equity interests in a business enterprise are not necessarily worth the pro rata share of the business enterprise value as a whole. Conversely, the value of the business enterprise is not necessarily a direct mathematical extension of the value of the fractional interests.	2613 2614 2615 2616
(e)	the scope of work that will be necessary to complete the assignment;	2617
	<u>Comment:</u> The scope of work is acceptable when it is consistent with:	2618
	<ul style="list-style-type: none"> <li>the expectations of participants in the market for the same or similar appraisal services; and</li> <li>what the appraiser's peers' actions would be in performing the same or a similar business valuation assignment in compliance with USPAP.<sup>46</sup></li> </ul>	2619 2620 2621 2622
	An appraiser must have sound reasons in support of the scope of work decision and must be prepared to support the decision to exclude any information or procedure that would appear to be relevant to the client, an intended user, or the appraiser's peers in the same or a similar assignment. An appraiser must not allow assignment conditions to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the intended use of the appraisal.	2623 2624 2625 2626 2627 2628 2629
(f)	any extraordinary assumptions necessary in the assignment; and	2630
	<u>Comment:</u> An extraordinary assumption may be used in an appraisal only if:	2631
	<ul style="list-style-type: none"> <li>it is required to properly develop credible opinions and conclusions;</li> <li>the appraiser has a reasonable basis for the extraordinary assumption;</li> <li>use of the extraordinary assumption results in a credible analysis; and</li> <li>the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.</li> </ul>	2632 2633 2634 2635 2636

Standard 9

<sup>46</sup> See Statement on Appraisal Standards No. 7 (SMT-7), page 94, for example of qualification criteria for an "appraiser's peers." [An "Appraiser's peers" are other competent, qualified appraisers who have expertise in similar types of assignments involving similar types of property.]

2637 (g) any hypothetical conditions necessary in the assignment.

2638 Comment: A hypothetical condition may be used in an appraisal only if:

- 2639 • use of the hypothetical condition is clearly required for legal purposes, for purposes  
2640 of reasonable analysis, or for purposes of comparison;
- 2641 • use of the hypothetical condition results in a credible analysis; and
- 2642 • the appraiser complies with the disclosure requirements set forth in USPAP for  
2643 hypothetical conditions.

2644 Standards Rule 9-3 (This Standards Rule contains binding requirements from which departure is not  
2645 permitted.)

2646 In developing a business or intangible asset appraisal relating to an equity interest with the ability to  
2647 cause liquidation of the enterprise, an appraiser must investigate the possibility that the business  
2648 enterprise may have a higher value by liquidation of all or part of the enterprise than by continued  
2649 operation as is. If liquidation of all or part of the enterprise is the indicated basis of valuation, an  
2650 appraisal of any real estate or personal property to be liquidated may be appropriate.

2651 Comment: This rule requires the appraiser to recognize that continued operation of a  
2652 business is not always the best premise of value because liquidation of all or part of the  
2653 enterprise may result in a higher value. However, this typically applies only when the  
2654 business equity being appraised is in a position to cause liquidation. If liquidation of all  
2655 or part of the enterprise is the appropriate premise of value, competency in the appraisal  
2656 of assets such as real estate (STANDARD 1) and tangible personal property  
2657 (STANDARD 7) may be required to complete the business valuation assignment.

2658 Standards Rule 9-4 (This Standards Rule contains specific requirements from which departure is  
2659 permitted. See the DEPARTURE RULE.)

2660 In developing a business or intangible asset appraisal, an appraiser must collect and analyze all  
2661 information pertinent to the appraisal problem, given the scope of work identified in accordance with  
2662 Standards Rule 9-2(e).

2663 (a) An appraiser must develop value opinion(s) and conclusion(s) by use of one or more  
2664 approaches that apply to the specific appraisal assignment; and

2665 Comment: This rule requires the appraiser to use all relevant approaches for which  
2666 sufficient reliable data are available. However, it does not mean that the appraiser must  
2667 use all approaches in order to comply with the rule if certain approaches are not  
2668 applicable.

2669 (b) include in the analyses, when relevant, data regarding:

- 2670 (i) the nature and history of the business;
- 2671 (ii) financial and economic conditions affecting the business enterprise, its industry, and  
2672 the general economy;
- 2673 (iii) past results, current operations, and future prospects of the business enterprise;
- 2674 (iv) past sales of capital stock or other ownership interests in the business enterprise  
2675 being appraised;
- 2676 (v) sales of similar businesses or capital stock of publicly held similar businesses;

(vi) <b>prices, terms, and conditions affecting past sales of similar business equity; and</b>	2677
(vii) <b>economic benefit of intangible assets.</b>	2678
<b>Comment:</b> This rule directs the appraiser to study the prospective and retrospective aspects of the business enterprise and to study it in terms of the economic and industry environment within which it operates. Further, sales of securities of the business itself or similar businesses for which sufficient information is available should also be considered.	2679 2680 2681 2682
<b>Standards Rule 9-5 (This Standards Rule contains binding requirements from which departure is not permitted.)</b>	2683 2684
<b>In developing a business or intangible asset appraisal, an appraiser must reconcile the indications of value resulting from the various approaches to arrive at the value conclusion.</b>	2685 2686
<b>Comment:</b> The appraiser must evaluate the relative reliability of the various indications of value. The appraiser must consider the quality and quantity of data leading to each of the indications of value. The value conclusion is the result of the appraiser's judgment and not necessarily the result of a mathematical process.	2687 2688 2689 2690